

## BOARD ACTION MEMORANDUM

**TO:** NCUA Board

**DATE:** December 15, 1997

**FROM:** Chief Financial Officer

**SUBJ:** 1998 Operating Fee

**ACTION REQUESTED:** Board approval of the Operating Fee structure and the Assessment Scale for 1998.

**DATE ACTION REQUESTED:** December 18, 1997

**OTHER OFFICES CONSULTED:** Office of the Executive Director, Office of Examination and Insurance, Office of Corporate Credit Unions, and Office of General Counsel.

**VIEWS OF OTHER OFFICES CONSULTED:** Presented below.

**BUDGET IMPACT:** The ability of NCUA to carry out its planned budget is dependent upon an adequate level of operating revenue.

**RESPONSIBLE STAFF MEMBERS:** Chief Financial Officer Dennis Winans, and Deputy Financial Officer/NCUA Ronald M. Aaron

**BACKGROUND:** Section 105 of the Federal Credit Union Act provides the NCUA Board with the authority to assess an operating fee on federal credit unions to finance expenses incurred in carrying out its responsibilities under the Act. On an annual basis the Board is to determine the period for the fee, the method of assessment, and the date of payment. The Board must give consideration to its budget and to the ability of federal credit unions (FCUs) to pay when determining the fee.

Over the past four years the NCUA Board has reduced the annual operating fee charged to federal credit unions by a cumulative 24 percent and had not increased the operating fee scale for the two years prior to 1994. The ability to reduce or hold fees steady over the past six years was due to modest budget increases and a commitment by the Board to lower the fund balance of the Operating Fund to \$5 million. The fund balance is projected to be approximately \$5.75 million<sup>1</sup> as of December 31, 1997.

In addition, the NCUA Board approved the restructure of the operating fee in 1995 by exempting credit unions with assets of \$500,000 or less, and assessing \$100 for credit

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<sup>1</sup> Of this amount, approximately \$4.3 million is in the form of property and equipment, and the remaining \$1.4 million is considered as liquid assets.

unions with assets over \$500,000 but less than \$750,000. This restructuring was approved to relieve the burden placed upon small credit unions and make the fee more equitable without imposing any significant burden on large credit unions.

At the November 1997 open meeting, the NCUA Board approved a 1998 Operating budget of \$109.3 million. This budget represents an increase of \$9.5 million or a ten percent increase over the 1997 budget. The increase in the 1998 budget is necessary to provide merit increases and the resources required to complete not only the regular examination program, but also expanded program goals and objectives for 1998. These added goals and objectives for 1998 include Year 2000 issues and an expanded corporate credit union program. The 1998 budget also includes a four percent merit increase for all staff which is necessary to enable NCUA to retain seasoned staff and to remain competitive with other financial regulatory agencies.

**SUMMARY:** The operating fee will be assessed to FCUs based on December 31, 1997, year-end assets which necessitates the projection of federal credit union asset growth to the end of the year. The June 30, 1997, 5300 data indicated that federal credit union assets increased 3.3 percent over December 31, 1996, reported assets. Since federal credit union assets historically do not increase significantly during the second half of a calendar year, this percentage is not expected to change. The asset dividing points will be increased by this same average annualized growth rate, except for the first and second tier.

The operating fee scale for federal corporate credit unions has remained unchanged since 1990. In 1995, a separate corporate credit union program was established within NCUA. Federal corporate credit union assets now make up about 10.2 percent of total federal credit union assets. From 1995 to 1998 the budget for the corporate program has increased by 139 percent and now makes up 4.4 percent or \$4.8 million of the 1998 budget. Based upon the 1997 corporate fee scale, corporate credit unions would remit approximately \$540 thousand in operating fees for 1998 requiring natural person federal credit unions to make up the \$1.9 million difference.<sup>2</sup> The Director, OCCU has indicated his concern with a corporate fee increase in that it would be unfair to federal corporate credit unions since a significant portion of OCCU's time is spent with state chartered corporate credit unions which do not remit federal operating fees. The Director believes that the most fair method would be to assess the entire corporate program to the NCUSIF since over 95 percent of all natural person credit unions are members of the corporate network. A more equitable solution would be to charge an operating/examination fee to all corporate credit unions to cover half the cost of the

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<sup>2</sup> The budget for the corporate program is \$4.8 million for 1998. The NCUSIF would cover \$2.4 million through the overhead transfer leaving \$2.4 million to be collected. Federal corporate credit unions would remit \$540 thousand leaving a difference of about \$1.9 million which would then be passed on to natural person federal credit unions through increased fees.

corporate program. However, General Counsel has indicated that this action needs to be accomplished through the rule making process. Due to timing constraints, this action cannot be accomplished until next year at which time a proposed rule will be drafted by OCCU to collect fees from all corporate credit unions to cover the cost of the corporate program beginning with the 1999 fee cycle.

As a result, staff is recommending that the fee scale for corporate federal credit unions be eliminated for 1998 only and that the entire cost of the corporate program be covered from the NCUSIF. There would be no corporate credit union fees assessed for 1998. Accordingly, the operating fee assessment required from natural person FCUs is projected to be \$47.51 million.

In establishing an operating fee assessment rate to be applied to the asset brackets, a number of factors need to be considered. The approved 1998 budget is \$109.32 million. This dollar amount is adjusted by the following items:

- a one percent budget reduction due to variances resulting from delays in filling employee vacancies (\$1.09 million).
- the entire cost of the corporate program charged to the NCUSIF (\$4.81 million).
- overhead transfer expenses transferred to the insurance fund (\$51.71 million).
- expected operating fund interest and miscellaneous income (\$1.50 million).
- a reduction in the fund balance (\$0.75 million).
- net of non-cash depreciation expense plus costs for capitalized equipment (\$1.95 million).

The remaining amount of \$47.51 million is the amount which must be collected from operating fees.

The FY 1997 operating fee assessment scale, with the proposed FY 1998 asset dividing point adjustments, would produce operating fee revenue of approximately \$43.24 million. This would cause a \$4.27 million deficit. Accordingly, a 9.88 percent increase in the assessment rates is necessary to increase the total natural person FCUs assessment to \$47.51 million.

**RECOMMENDED ACTION:** It is recommended that the NCUA Board approve the following changes to the operating fee scale for FCUs to be implemented for the 1998 collection cycle:

1. Increase the assessment rate by 9.88 percent, and increase the asset dividing points so that the following scale is adopted:

Total Assets		Assessment Rate
over	but not more than	
\$ 0	\$500,000	\$0.00
\$500,000	\$750,000	\$100.00
\$750,000	\$449,714,407	0.000.2665 X total assets
\$449,714,407	\$1,360,829,044	\$119,848.89 + 0.0000.7768 X total assets over \$449,714,407
\$1,360,829,044	and over	\$190,624.28 + 0.00002592 X total assets over \$1,360,829,044

2. Retain the same Operating fee assessment rate for corporate FCU's:

\$2,854.89 plus 0.2234 per \$1,000 of assets over \$5,000,000\*  
 \$6,110.11 plus 0.2111 per \$1,000 of assets over \$20,000,000  
 \$12,367.25 plus 0.1987 per \$1,000 of assets over \$50,000,000  
 \$22,362.33 plus 0.0123 per \$1,000 of assets over \$100,000,000

\*The federal credit union operating fee scale is used for corporate federal credit unions with assets under \$,5000,000.

3. Charge 4.27 million of the Office of Corporate Credit Unions budget to the NCUSIF, which is the difference between the total budget of 4.81 and the Corporate Operating fees of .54 million.

4. Establish an operating fee due date of no later than April 15, 1998.

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Chief Financial Officer

Attachment